THE NATIONAL CITY BANK OF NEW YORK

1916

U. S. SECURITIES GOVERNMENT FINANCE ECONOMIC AND FINANCIAL CONDITIONS

NEW YORK, FEBRUARY, 1916.

General Business Conditions.

BUSINESS conditions in the opening month of 1916 have been very encouraging from almost every viewpoint. It would be easier to name the unsatisfactory features than the favorable ones. The congestion of foreign-bound freight at the ports, with the incidental inconvenience to the railways and shortage of cars would be the most important of the latter, and the shortage and high prices of numerous materials, notably dye-stuffs, would come next. The suggestion of labor troubles, particularly upon the railways, is also disquieting, in view of statements, apparently authorized, that the four orders of trainmen which have joined in demands for a readjustment of the basis of pay will have "no arbitration this time." The railway orders, however, have always been ably directed, and it is not likely that the men as a body would favor a step so demoralizing to industry and so injurious to the country as an attempt to tie up the country's transportation system.

Trade is good in nearly all lines. Omitting New York City on account of the Stock Exchange operations, a comparison of bank clearings for the country shows a gain of about 25 per cent. over a year ago. Railway traffic is uncommonly heavy and earnings, both gross and net, are surpassing all records. The benefits of the large expenditures made in the last dozen years for the purpose of reducing operating costs are realized under a full volume of traffic as it has not been possible to realize them heretofore.

The steel industry continues at the highest possible rate of production. Every old furnace and mill that can be made to do service is back in commission, and an important amount of construction is being done. Prices continue to advance upon early deliveries, and contracts are being made for delivery as far ahead as the first half of 1917. While war orders are still an important factor in the work being done, they are a diminishing factor in the volume of business being booked. The producers naturally are giving the preference to their regular lines of business and their regular customers, and from present appearances the cessation of war business will be a much less serious matter than has been apprehended. The belligerent countries are steadily increasing their own facilities for the production of war supplies. A large amount of business is being held back by domestic buyers, which can be counted upon to come forward when the pressure relaxes, and there is further assurance of peace business from abroad when the war is over.

The big steel producers, like the railways, are enjoying the benefits of operations at full capacity and also the benefits of higher prices, with the result that their earnings are very large. The revenue account of the United States Steel Corporation for the last quarter of 1915 and the corresponding quarter of 1914 is given below:

Quarter ended Dec. 31,	1915	1914
Net earnings	$51,232,788	$10,933,170
Depreciation, sinking fund, etc.	10,379,675	4,587,912
Net increase	40,853,113	6,345,258
Interest, U. S. Steel b. & p.	5,687,777	5,777,081
Balance	35,959,393	698,636
Dividends, preferred	6,304,920	6,304,920
Dividends, common	6,353,781	....
Surplus	23,300,692	*5,606,283

*Deficit.

The net earnings for the last quarter are much ahead of those for any other quarter of the company's history, the next largest having been $37,780,475, for the quarter ended June 30, 1907. After a suspension of dividends for one year, they were resumed, on the strength of this showing, at the rate of 1¼ per cent. quarterly. It will be noted that the earnings for the last quarter will more than cover the dividends for the year at this rate.

The most important development in connection with the steel industry is the rapid change being made in the production of coke. Expenditures running into the millions of dollars are under way for the installation of the modern by-product coke ovens and the old type of ovens will soon be a thing of the past.

The coal business is more than good, with prices better than at any time last year prior to November. There are innumerable export orders in the market but few vessels available. Stocks are being accumulated by dealers and large consumers against a suspension of mining operations in the spring.

The metal-mining industry continues at high pressure, with copper, lead and spelter very firm, at about 25 cents, 6 cents and 18 cents per pound. The price of crude and refined mineral oil continues to rise, and this has stimulated great activity in development work in the producing fields, with a corresponding demand for supplies.

The production of woolen, cotton and silk fabrics is at the highest rate in the history of the country, and the business is now on a profitable basis, the stage having been reached where buyers are more

concerned about deliveries than prices. Much is heard of a critical situation in dye-stuffs, but it does not seem to interfere seriously in production.

The industries dependent upon building operations, i.e., lumber, brick, cement, etc., are all doing well now, and winter building operations are unusually active. There is a scarcity of labor which threatens to curtail the supply of materials, and it is possible that the rise of prices may curtail building operations in 1916.

The total foreign trade of the country in 1915 was $5,329,521,248, with exports of $3,550,915,393, and imports of $1,778,605,855. The previous record for exports was $2,484,018,292, in 1913, and for imports $1,818,073,055, in 1912. The balance of trade in favor of the United States in 1915 was $1,772,309,538, against the previous record of $691,421,812 in 1913.

The *London Times*, of January 15, 1916, gives the following, as representative of the advance in freight rates since the opening of the war:

	July, 1914. Per ton.	January, 1916. Per ton.
GRAIN:—		
Argentine to United Kingdom	12s.	150s.
United States to United Kingdom	10s.	75s.
United States to Italy	15s.	115s.
COAL:—		
Cardiff to Genoa	7s.	75s.
United States to Genoa	12s.	110s.

The Money Market.

Interest rates are still dragging on the ground, a situation which although comfortable and pleasing to borrowers should never be mentioned without a warning against the dangers which lurk in easy money when the conditions that make it easy are temporary. There has been considerable discussion of late as to what constitutes inflation, and excessive issues of paper money are most often mentioned as the most dangerous form of it.

The ultimate evil, however, whether promoted by irredeemable issues of paper or extraordinary supplies of gold is a condition in which a lot of speculative indebtedness is created which can only be liquidated by the sale of property, and the prices of goods, securities and other property are lifted above the normal level at which they can be regularly maintained. Unquestionably low interest rates, coincident with general prosperity and exceptional earnings, are conducive of such inflation. When money can be borrowed at three or four per cent. and invested in the stocks of corporations earning several times those rates, or in business extensions that promise still more, there is evidently a temptation to use it, and the results have been experienced so often that no apology need be offered for referring to them. They should be kept before the public view.

One of the most encouraging features of the present situation on a broad survey is the subsidence of speculative activity in the stock market. The general list of stocks is lower than it was three monthe ago, and there has been a decided decline in the issues that had previously made the largest advance. A continuance of the speculative activity which prevailed last summer and in the early fall would absorb lending power which could not be withdrawn without forcing a recession in the market. There are other uses in sight for the country's available credit. We must continue to receive our own securities from abroad and we must continue to supply credit to foreign customers in order to keep our trade moving, and it is very desirable to accumulate claims on the foreign markets which are likely to draw gold from us after the war. Moreover, the expansion of industry is only now well under way and has scarcely as yet begun to call for credit. It is evidently undesirable, therefore, that our lending power shall be taken up in financing a mere rise of prices.

The standard stocks are well supported upon the present level by the earnings accruing to them, and while this is the case there is no menace from that quarter to the general situation.

The interval between the last two Comptroller's calls covered a period when not much change was to be expected in the relations of the New York City banks to the banks of the country. The national banks of this city held on December 31st, $6,269,000 less deposits from other banks, bankers and trust companies than on November 10. Their individual deposits increased $101,857,700, loans increased $55,987,500, and cash decreased $34,021,600. There has been a moderate gain in cash since and the excess reserve of the New York Clearing House banks increased during the month of January from $143,000,000 to $175,000,000.

The money market has been very narrow and quiet with call money at 1¾ to 2 per cent. and best names in commercial paper usually at 3 per cent. The supply of commercial paper remains small.

Sterling exchange has been fairly steady throughout the month around $4.76, which is about the rate which would be realized on gold imports at the present transportation costs. Gold imports from Great Britain during the month were $4,600,000, and it is doubtless the purpose of those who are managing the fund of British credit here to keep them at small proportions. If they are successful there is promise that interest rates may stiffen as spring activities open and money comes into demand for the spring discounts. At the rate business is going now the country over more credit eventually will have to be used, and it is only a question of time when the interior banks will want to replenish their reserves with lawful money from New York.

British Mobilization of American Securities.

The British government's policy of buying or borrowing American securities from individual owners has been successfully developed. No figures have been given of the amounts thus far obtained, but it is said that the results are very satisfactory. In order to facilitate handling them the government is at first inviting deposits in sections, giving limited lists for each section, but more than one hundred securities have now been named and prices fixed upon them; prices, however, will be changed to conform to the fluctuations of the New York market.

It is understood that the government has bought largely and that pending the announcement of terms, and since many holders have preferred to

sell directly on the New York market, which the government has declared to be quite satisfactory. It is improbable that the government has sold on its own account, and whatever selling it does will doubtless be handled with great circumspection to avoid any disturbance to the markets. These transactions are chiefly in bonds.

Bond Market in January.

During the past month our markets have continued to absorb a considerable amount of foreign liquidation, conducted however in such an orderly manner that the general level of prices has not been adversely affected. In fact the average price of 40 active bonds, as compiled by the New York *Times*, gradually improved from 86.68 on January 3rd to 87.18 on January 27. The large offerings from abroad, resulting from Great Britain's scheme of "mobilization" have been for the most part effected privately through the medium of the larger investment dealers. Investment demand has been fairly active. The total sales on the New York Stock Exchange for the month will approximate $115,000,000 in principal amount. This is a slight decrease from the figures of the last two months of 1915, but amounts to about twice the transactions for January, 1915.

The most active bond issue on the Exchange has been the Anglo-French 5% Bonds, the total transactions in which will amount to about $14,000,000, with an advance during the month of a fraction of a point. International Mercantile Marine 4½'s have continued their activity and advanced to a new high level of over 102. This activity and advance were predicted upon rumored plans of benefits to be received in reorganization. New York Central Convertible 6's and other railroad convertibles have been active on account of the improvement in railroad earnings.

The most striking incident of the month in the bond market was the successful sale on January 27th of $25,000,000 New York State 4% Bonds. The competition for these bonds was very keen, and the successful bid of 103.27 represented an income yield to the purchaser of only 3.85%. This compares with a basis of 4.08% realized at the sale of $27,000,000 Bonds in March, 1915. It has since been announced the entire issue has been resold and that there will be no public offering. The success of this sale is undoubtedly predicted upon the same factors which have caused an active demand for municipal and state issues in general, namely, the local discussion of a New York State Income tax, the possibility of an extension of the Federal Income tax, and the exemption from personal taxation under State laws.

During the month, the syndicate formed to distribute $14,500,000 Seaboard Air Line Railway First Consolidated 6% Bonds has been dissolved, its efforts having met with complete success. The bonds are now obtainable only at a substantial advance over the original offering price. The American Telephone & Telegraph Co. arranged for the refunding of its $26,425,000 short term notes maturing in April and May, and provided for its other corporate needs by the sale of $50,000,000 Two-Year 4½% Notes. These notes also have gone to a premium over the original offering price to investors of 99½%. The transfer of a substantial portion of the Chicago, Milwaukee & St. Paul 4% French Loan to this market was successfully consummated during the month by the offer of a like par amount of 4% bonds payable in United States gold dollars and secured by the French bonds as collateral. The offering was very largely over-subscribed.

Our loans to foreign Governments continue. A new issue of $5,000,000 Kingdom of Norway 7-Year 6% Bonds is being currently offered on a 5¾% basis. Because of the high credit of Norway and the 7-Year life of the new bonds, this issue should appeal to investors who desire a good security combined with a high income yield and a reasonable possibility of enhancement in price upon the return of normal conditions.

Labor Situation.

In nearly all the industries expansion is now limited by the labor supply, and manufacturers are bidding against each other for help. If they are not doing so directly within the same industries, there is sharp competition between the industries. The textile mills, in which perhaps wages have advanced less in recent years than in some other lines, complain of losing people to other employments. A general increase of about five per cent. has been granted in the mills.

Discussing the situation in this industry the American Wool and Cotton Reporter, of Boston, says in its last issue:

> With any large amount of mill building, it will be a big problem as to where the operatives are to come from. If they do not come from foreign countries, then they must be taken away from some other domestic industry, or from other branches of the textile field. It has been shown quite conclusively that the cotton industry cannot draw many employes from other domestic industries. The tendency has been for other industries to draw operatives from cotton manufacturing, and one of the great difficulties in the textile industry has been the fact that new operatives were continually necessary and needed to be continually trained. With many manufacturers this in itself has kept down the quality of the cloth produced and kept up the cost of production. More operatives must be available to take the places of those who go into other industries, and if a full quota of employes is to be noted the wages must be relatively higher than they ave been. During the past two years or so there has been a falling off in the number of people coming to the United States, and also the whole tendency is to avoid the textile industry. Whereas the cotton industry used to be a stepping stone for other industries, it is being eliminated largely to-day, and the tendency probably will be even more noticeable in the future.

In the steel industry there has been a general advance of wages of about ten per cent. and it is worth mentioning that this is additional to a similar advance on February 1, 1913, which has never been revoked. Along with higher wages working conditions in the steel industry are much better than formerly, the labor having been lightened by mechanical appliances and many provisions made for the comfort of the workmen.

In the metal mining districts of the West wage advances have occurred, and the coal miners in both anthracite and bituminous fields have formulated

their demands for the two-year period beginning April 1st next. The advances in the iron and steel and numerous other industries make it probable that the coal operators will have to fall in line with concessions.

The four orders of railway trainmen have submitted a demand for a new basis of pay in the freight service on all roads in the United States. At present they are paid upon a mileage basis with overtime at a proportionate rate if the run requires over ten hours. They ask that eight hours be adopted as the limit for a run, and that time-and-a-half be granted when it is exceeded.

Negotiations are pending upon the wages of large bodies of workers in the clothing industry, and for smaller numbers in other trades. Of course conditions are very much improved by the fact that employment is generally for full time and in many instances for overtime, with pay accordingly.

This movement illustrates how easily wages advance when business conditions are favorable and when the supply of capital increases. It illustrates a fundamental law of progress which inevitably regulates the division of product between capital and labor, but which amid all the wrangling over that division is seldom alluded to. Capital in all advanced countries increases faster than population, and this is especially true in the United States, as shown by the census returns. Since capital cannot be put into use without employing labor, it follows that a constantly increasing amount of capital competes for a relatively smaller amount of labor. Under such conditions there is an inevitable tendency of wages to rise; the new supplies of capital always coming on the market would have to lie idle if they did not enter the field and bid for labor against the capital already conducting industry. If the supply of labor increased at the same rate as the supply of capital the balance between them would remain the same, but with capital increasing faster than labor the latter constantly comes into a stronger position.

When this is understood it is seen that for the rich to grow richer and the poor grow poorer or fail to share in the progress, in the very nature of things is impossible. Every attempt of the rich to use their capital sets in motion equalizing influences. If capital accumulates rapidly, the demand for labor will increase with even greater relative rapidity.

The direct effect upon wages is modified by the fact that as labor becomes scarce and wages rise there is greater inducement to install labor-saving machinery, but improvements of this kind multiply and cheapen the production of all the necessaries and comforts of life, and the wage-earners share in these gains as consumers. They are gainers either way the equation works out.

Henry Ford has chosen to make a large direct distribution to his workmen in the form of higher wages, but he is devoting a part of his accumulations to the development of a farm tractor which it is hoped will decrease the cost of farming operations and cheapen the cost of food. If he is successful the portion of his profits that is so expended will be more serviceable to the wage-earning class as a whole than any distribution of cash among his own workmen and this illustrates the results of capital accumulations on every hand.

There is going on now a rapid accumulation of capital in this country, and a corresponding increase in the demand for labor. Under normal conditions such a condition is wholesome and beneficial, but it would be a mistake not to recognize that present conditions are abnormal. If capital was increasing all over the world as it is in the United States wages would go up abroad as well as here but unless wages advance in other countries we will have either an inflow of labor or an outflow of capital after the war is over, until the equilibrium is restored. The best conditions in industry for both employers and employed are those that make for stability, affording steady employment, increasing output and a constantly enlarging distribution and consumption of products.

Influence of Immigration.

Some comment has been received upon a recent reference in these columns to the subject of immigration and its influence both in this country and the countries from which it comes.

There is no denying that the outflow of laborers from the old countries to the United States and other new countries has been beneficial to the laboring people of the former regions. Those who have come here have bettered their condition, and their coming has relieved over-crowded districts abroad and helped to raise wages there.

The movement has been a natural and economically sound re-distribution of population, as the same amount of labor would produce more here than there. It has been necessary to the development of the resources of this country, and for the best interests of the great body of wage-earners of this country. It has been the glory of this country that there have been more opportunities for advancement for the workingman and his children here than anywhere else in the world. The children of the laborer do not pass through the public schools and come out to be unskilled laborers. They are qualified for better paid employment. The children of the Irish day laborers of fifty years ago are prominent now in all the walks of life.

Notwithstanding the amount of work done by machinery there remains a large amount of work which must be done by manual labor and for which very little skill is required. It is a waste of ability to have this kind of work done by men who are capable of higher grade work, in the same sense that there is an economic waste in having work done by manual labor that can be done by a machine. The unskilled labor which has come in from the old countries has enabled more competent labor to rise to better things. There must be a certain proportion of unskilled labor to the total number of people employed, and if it cannot be had industry cannot expand, and there will be less demand for skilled workmen of all kinds, clerks and professional men, and fewer opportunities for the army of bright and trained young men who are every year leaving the schools and entering business life.

The ranks of unskilled labor in this country have

always been recruited from abroad and they cannot be filled from our own youth. A large proportion of even the immigrants do not stay there, but pass through and up into better paid employments, but they could not do so if others were not coming in to take their places.

Rural Credits.

The joint committee upon Rural Credits, which was appointed in pursuance to a provision in the agricultural appropriation bill passed by the last Congress, has now reported a bill for a system of land mortgage banks. The subject of rural credits has been under discussion for some time, with a growing interest in it, and it will be remembered that late in the last session of Congress Senator McCumber, of North Dakota, offered an amendment to the bill carrying the annual appropriations for the agricultural department, providing for a system of government loans upon farm mortgages, which was adopted by the Senate. The House declined to accept the McCumber amendment, and substituted what was known as the Hollis bill for it. Finally the matter was temporarily disposed of by providing for a joint committee, consisting of six senators and six House members. The senators are Owen, Hollis, Gore, Smith of Georgia, Nelson and Brady. The House members are Glass, Lever, Moss, Hayes and Hawley. The action of both houses has indicated that Congress is about ready to legislate on the subject, and as the administration will press for results it is very likely that something will be done at this session.

It goes without saying that the whole country is interested in anything that will benefit agriculture. There is much evidence that agriculture the country over has not been keeping pace with the other industries. In every other line of production improvement in methods has been rapid, and there has been a constant tendency to reduce costs, but the reductions so made have been offset by the higher wages made necessary by the higher cost of food.

One reason for this lies in the fact that the best of the cheap lands of this country have been occupied, and it is not so easy to increase food supplies as it was formerly. Our increasing requirements in the future must be met by more scientific tillage and by bringing into cultivation lands that require a considerable expenditure for drainage, clearing, the restoration of fertility, etc. This means that there must be a larger use of capital, and it is desirable that capital shall be readily available for these purposes. Many well-informed men are convinced that the facilities for extending credit to farmers are not as good as they might be and that there should be an organized effort to improve them. The question is what practical aid can the national government render?

The Government's Credit.

Of course there are people who think that the government can easily solve the whole problem by advancing the money or lending its credit. They think the government can borrow very cheaply and that it costs nothing to use the government's credit. They do not understand that if the government should borrow on a great scale it could no longer borrow cheaply. There are only a limited number of people who prefer low rate government bonds to state, county and municipal bonds and other sound investments which pay a higher return. It follows that as the supply of government obligations increases the rate will gradually rise, not necessarily because the government's credit is impaired, but because the demand for that particular security is satisfied, and additional issues must attract another class of investors.

On account of the tax-free privilege of government bonds, and the circulation privilege which they carry for national banks, the preference for government bonds as an investment has appeared greater in this country than it really is. There are only $844,827,590 United States government bonds outstanding which draw less than four per cent. interest, and of them $746,417,890 are owned by national banks and Federal Reserve banks. There are only $50,000,000 government bonds outstanding that are not eligible for use as security for bank issues. These draw three per cent. interest and perhaps $50,000,000 more could be sold without sending the price below par, but the market for them is soon satisfied.

It is a mistake, therefore, to think that a great gain could be made by using the government's credit, either for farm loans or for other industrial undertakings frequently suggested. The rate on all government obligations would be forced up by such a policy, and the government would be a loser upon all borrowings for its regular, necessary functions. The government's credit should be used very sparingly outside of its own functions.

Artificially Low Rates of No Advantage.

It is not likely that farming as a business would be much benefited by the use of government credit instead of other credit. The main thing is to make credit more readily available than it now is in some parts of the country, and upon normal, reasonable terms. If money for farm loans is made easy to get and cheaper than it now is, the selling value of lands will surely rise; and if our chief hopes are realized, and farming is made more productive and profitable, the effect will be to reduce the prices of farm products. Under these conditions there are sure to be complaints that the situation of the farmer is no better than it was before, and there will be a lot of farmers who, in fact, are no better off than they were before. The progressive and capable farmers will always produce more per acre than the poor ones, and make the prices at which the latter must sell.

Of course it does not follow from this that it is not worth while to increase the borrowing facilities of the farmers. It is not worth while except by methods that are economically sound. If the progress of agriculture is being hampered for want of facilities by which capital can flow freely, there should be a way to remedy the situation, but when such facilities are provided if capital does not flow naturally it must be because it cannot be profitably used.

The Debenture System.

In many parts of the country where there is plenty of home capital seeking investment, and in the preferred territory where insurance companies, savings banks and mortgage companies are competing with each other, the situation can scarcely be improved by legislation. But there is much evidence that in some sections of the country there is not enough money available for farm loans to supply the legitimate demand, and that rates are unduly high and development is retarded.

It is difficult to dispose of farm mortgages away from home except through a well-developed organization. The life insurance companies buy for their own reserves, and have their own organizations to handle them. There are numerous mortgage companies which, in the aggregate, place a large volume of loans, and the country banks make a good many, but the mortgage companies and banks are not able to find an outlet for all the loans they can make. There is constant inquiry at the centers about a market for mortgages, but a distant investor, who knows neither the borrower nor the intermediary, and cannot examine the property, naturally hesitates to go it blind in placing his money. Another objection is that there is no market for the resale of farm mortgages, in case the investor wishes to realize upon them before maturity.

It is evident that if there was a corporation of sufficient responsibility and prestige to sell its own debentures, based upon mortgages, and create a ready market for them on the strength of its own credit, the problem of finding money for mortgages would be solved. In other words, a corporation is wanted to do in the farm mortgage field what the American International Corporation, recently described in these columns, is preparing to do in the foreign investment field.

Such a corporation could maintain an organization for examining property, inspecting titles, looking after the payment of taxes, the continuance of insurance and the collection of interest, all of which is impracticable for the individual investor. There are corporations doing this with a good degree of success in a limited territory, but unfortunately investors had a disheartening experience with debenture companies about twenty-five years ago which has been an obstacle to subsequent development along that line. Moreover, the states whose farm mortgages bear the best reputation have been so well supplied with money that it is doubtful if any debenture system would have served them better. It is generally agreed that a debenture company must have a margin of at least one per cent. between the rate upon its debentures and the rate upon the mortgages thereunder, and where the current mortgage rate is five per cent. or even five and one-half, no reduction under the debenture system is probable. In localities, however, where the ordinary mortgage rate is above six per cent. if the security is good enough and the volume large enough to justify a debenture business, the system would be advantageous.

One superiority of the debenture bond over the individual mortgage is that, as the former is based upon a large number of mortgages the element of averages enters into it. The risks of the business are reduced to the minimum. Once a large debenture business is established, with ample capital and surplus to serve as a guaranty fund, and given careful management, it should be successful, but in the old farming states of the north it would have to do business on a very close margin of profit.

State Legislation.

The states of Massachusetts and New York have recently adopted legislation designed to establish debenture systems for supplying rural credits. The Massachusetts act, which was passed in 1915, authorizes the organization of Farm Land Banks, with a capital of not less than $50,000, which shall be under the supervision of the Bank Commissioner of the state. These banks are authorized to issue debenture bonds based upon farm mortgages which are a first lien and do not exceed fifty per cent. of the value of the property, but the amount of bonds issued must not exceed 95 per cent. of the face value of the mortgages. Loans shall be for not less than five or more than thirty-five years, and if for more than five years must provide for regular amortization payments which will extinguish the loan at maturity. Interest rates upon the mortgages must not exceed rates upon the mortgages by more than one per cent.

The New York legislation was incorporated in the new state banking act of 1914, and is an extension of the previously existing system of local savings and loan associations, which lend money on either farm or city property. The "Land Bank" is a central organization of these local associations, which will receive mortgages from them and issue debenture bonds upon this security. Not less than ten local associations must join in organizing the land bank and subscribe for at least $100,000 of the capital stock. The land bank is authorized to invest its own capital and other funds in mortgages, and also to receive from its member associations mortgages which they have negotiated, and issue debenture bonds against all such, provided that each series of bonds must be for at least $50,000. The mortgages are deposited with the Comptroller of the State of New York. The land bank is limited in the issue of debenture bonds to not more than twenty times its own capital.

The Land Bank of the State of New York has been organized under these provisions, and the first series of bonds has been sold. They draw four and one-half per cent. interest and were sold to the Guaranty Trust Company. Of the mortgages behind this series $17,000 are upon farms and $33,000 upon city property. The properties covered are located in twelve counties.

The Pending Federal Plan.

The plan of the Joint Committee for a national system, provides for twelve or more Federal Land Banks, each in a separate district, after the scheme of the existing Federal Reserve System. These banks are to have a paid-up capital of not less than $500,000, and will be authorized to issue debenture bonds based upon mortgages, to an amount not ex-

ceeding twenty times their capital and surplus. The mortgages must be a first lien on improved farms occupied by the owners, and for not exceeding fifty per cent. of the appraised value of the property. The loan must be for expenditures upon the farm, i.e., purchase of the same, or for improvements, stock, etc. Every mortgage shall be for at least five years, but thereafter may be paid in whole or in part at any interest date, and must provide for a regular payment of not less than one per cent. upon the principal at each interest date, which without other payments upon the principal will extinguish it in thirty-six years.

The bill also provides for local associations, to be known as National Farm Loan Associations, which shall be composed of borrowers. Each borrower must take stock in the association to the extent of five per cent. of the amount of his loan, and the association must subscribe to the stock of the central land bank of its district to the extent of five per cent. of the face of the mortgages which it passes up to the land bank. In this manner the borrowers themselves supply the required capital of the land banks, which is to be not less than five per cent. of the debentures issued, with a minimum of $500,000. In order to supply the minimum capital at the start, the Secretary of the Treasury is authorized to subscribe for any amount of the stock of the land banks that may be necessary to provide the $500,000 required for each. As the business develops and borrowers supply the capital, the stock taken by the Treasury will be gradually retired. It will be seen that the scheme in its final development is strictly co-operative.

The debentures issued by the land banks will pay one per cent. less interest than the farm mortgages which they represent, but if any profit above expenses is realized it will go back in the form of dividends to the local associations, and be distributed by them in the form of dividends to the borrowers, in exact proportions to their loans.

Over the entire system is established a Farm Loan Board, which shall consist of five members, not more than three of whom shall be of one political party, all to be appointed by the President with the advice and consent of the Senate. They must devote their entire time to the duties and will receive the same pay as members of the existing Federal Reserve Board, to-wit, $12,000 per year. This Board will have supervision of the Farm Loan Banks, and be represented in the management of each of these banks by a Registrar, whose duties correspond to those of the Federal Reserve Agent in the Federal Reserve system. The Board will also appoint one or more land bank appraisers for each district, and as many special appraisers as it may deem advisable. The entire expenses of the system will be apportioned upon the land banks.

The resources of all the land banks are pledged to the redemption of the debentures issued by any of them.

The maximum loan to one borrower is $10,000.

The debenture bonds will be exempt from all Federal, state or local taxation, and a lawful investment for all fiduciary and trust funds, and may be accepted as security for government deposits or purchased by the member banks of the Federal Reserve system.

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS JANUARY 28, 1916.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certif's. Settlement fund. Cr. Balances	16.548	160.184	12,347	9 696	4.676	5,205	31,676	3,015	3,140	8,813	4,045	4.520	263.865
Gold Settlement Fund.....	1,877	11,346	3,000	11,500	11.048	3,884	14,152	5,882	4,344	3,295	8,987	5,535	84,850
Gold Redemption Fund ..	9	114			281	338		21	30	107	246		1.146
Total gold reserves..	18,434	171,644	15,347	21,196	16,005	9,427	45,828	8,918	7,514	12,215	13,278	10,055	349,861
Legal tender notes, Silver certif's and Sub. coin....	1,086	3.742	6.296	1,701	58	239	1,145	139	263	224	592	11	15.496
Total Reserves......	19,520	175,386	21,643	22,897	16,063	9,666	46,973	9,057	7,777	12,439	13,870	10,066	365,357
Bills discounted, Members Commercial paper	191	209	223	359	6,748	6,081	3,033	1,067	1,079	2,869	4,592	450	26.901
Bill bought in open market	7,420	10,454	2.073	932	150	409	2,278	829	490	497		782	26,314
Total.................	7,611	10,663	2.296	1,291	6,898	6.490	5,311	1,896	1,569	3,366	4,592	1,232	53.215 c)
Investment U. S. Bonds...	986		2,991	2,882		25	4,830	1,666	1,474	2.188	1,295	3,035	21,372
Municipal Warrants.......	3,305	7.060	2,977	2,789	160	331	1,482	441	1.174	349	76	458	20,602
Total Earning Assets	11.902	17,723	8,264	6 962	7,058	6.846	11,623	4,003	4,217	5,903	5,963	4,725	95.189
Federal Reserve Notes, net	1,025	25,185	658	894			1,747	941	610			5,409	36,469
Due from other F.R. Banks net......................	1,108		1,368	562	2,259	1,006	2,540	643	4,720	1,369	73	1,865	10,761(b)
All other resources........	504	614	372	701	104	1,072	244	4,212	113	1,171	711	176	9,994
TOTAL RESOURCES.....	34,059	218,908	32,305	32.016	25,484	18,590	63,127	18,856	17,437	20,882	20,617	22,241	517,770
LIABILITIES													
Capital Paid in............	5,158	11.058	5,270	5,938	3,356	2,423	6,646	2,783	2,549	3,014	2,756	3,941	54,892
Government Deposits.....	723	5,507	597	336	5,897	6,151	893	1,041	170	501	5.162	782	27,760
Reserve Deposits, net.....	28,178	195,591	26,433	25,742	11,301	8,175	55,588	15,032	14,718	16,247	10,136	17,518	424,664
Federal Reserve notes in circulation – Net Amt....					4,895	1,735				1,120	2,563		10,313 a)
Due to other F. R. Banks net (b)......................		6,752											
All other Liabilities.......					35	106							141
TOTAL LIABILITIES	34.059	218,908	32,305	32,016	25.484	18,590	63,127	18.856	17,437	20.882	20,617	22,241	517,770

(a) Total Reserve notes in circulation, 179,224.
(b) After deduction of items in transit between Federal Reserve Banks, 10.761, the Gold Reserve against Net Liabilities is 77.4% and the cash reserve is 80.8%. Cash Reserve against liabilities after setting aside 40% Gold Reserve against net amount of Federal Reserve Notes in circulation, 81.8%.
(c) Maturities of bills discounted and loans: within 10 days, 7,744; to 30 days, 11,259; to 60 days, 18,518; other maturities, 15,694; Total: 53.215.

Provision is also made for receiving time deposits at interest.

The land banks are authorized, in case local associations of borrowers are not formed, to appoint local agents to make loans, but the condition requiring each borrower to subscribe five per cent. of the loan to the capital of the land bank remains the same.

The plan is, for the most part, an ingenious adaptation of the Federal Reserve system. In its more important features it seems to be well conceived, but the practicability of the local associations will be doubted. The avowed purpose of the plan is to encourage and stimulate co-operation, which is to be commended, but the people of this country are naturally individualistic, and usually prefer to do their business in an independent manner. It is a question whether they will care to bother with a co-operative association, and whether it would not be better to make larger use of the existing machinery for placing mortgages. The local representatives of the land banks should not only have good knowledge of land values, but be methodical and efficient in the collection of interest and in supervision over payment of taxes, continuance of insurance and all details necessary to the protection of the mortgages. The country banks are competent to do all this, are everywhere and can afford to handle this business as a side line for small pay. If agencies were given to all members of the Federal Reserve system it might aid in popularizing that system.

No Personal Loans.

The system proposed is conservative in its provisions as to security. Probably the most frequent comment made upon it will be that a man who is able to own a farm subject to no greater encumbrance than this plan allows will be able to get along very well without the system. Certainly this is true in many parts of the country, but there is testimony that in many other localities it will reduce rates. Certainly this general plan will facilitate the movement of capital into and out of mortgage investments.

As to the tenant farmer, now financed by the landlord and local merchant, whose needs have been the text of most of the appeals for a system of rural credits, he is outside the provisions of this measure, and it is difficult to see how anybody but the landlord and local merchant can safely do business with him, until he has become forehanded enough to have established a personal credit.

Discount Rates.

Discount rates of each Federal Reserve Bank in effect Jan. 29th, 1916 are the same as those of Dec. 24th, 1915 – excepting the Boston rate on Maturities over 10 days to 30 days has been reduced from 4% to 3½%; and the Dallas rate on Trade Acceptances over 60 to 90 days, has been reduced from 4% to 3½%.

THE NATIONAL CITY BANK OF NEW YORK.